

AGENDA ITEM 2B.

**APPROVAL OF MINUTES OF THE JUNE 14, 2018
JOINT MEETING OF THE COMMISSION
AND THE INVESTMENT COMMITTEE**

Submitted for: Action

Summary: This report includes the minutes of the meeting held on June 14, 2018.

Action requested: That the Commission approve the minutes of the June 14, 2018 meeting.

MINUTES OF A JOINT MEETING
OF THE
ILLINOIS STUDENT ASSISTANCE COMMISSION
AND THE
INVESTMENT COMMITTEE

Michael A. Bilandic Building
160 N. LaSalle, Room N-502
Chicago, Illinois

June 14, 2018

1:00 p.m.

COMMISSIONERS PRESENT: Niketa Brar, Investment Committee Member
Miguel del Valle, Vice Chair, Audit Committee Member
Mark Donovan, Investment Committee Member
James Hibbert, Investment Advisory Panel Member
Kevin Huber, Chair and Investment Committee Member
Emma Johns
Claudia Quezada, Audit Committee Member
Kim Savage, Audit Committee Member
Dr. Patrick M. Twomey

STAFF PRESENT: Eric Zarnikow, Executive Director
Lynne Baker, Managing Director, Communications
Carol Cook, Director, Program Services and Compliance
Kishor Desai, Chief Internal Auditor
Wendy Funk, Managing Director, Finance and Accounting
Ellen Greenan, Deputy Director, RPPA
Katharine Gricevich, Director, Government Relations
Sandra Houston, Director, College Illinois!
Shoba Nandhan, Chief Financial Officer
Sam Nelson, Director, Outreach Development
Shana Rogers, Senior Research Associate, RPPA
Roger Rojas, Investment Officer
Karen Salas, General Counsel
Evelyn Smith, Director, Portfolio Management
Natalie Wandall, Assistant to Executive Director
Michael Wilder, Telecom and Network Engineer
Debora Calcara, Commission Secretary

STAFF PRESENT VIA TELEPHONE: Kent Custer, Chief Investment Officer

PUBLIC ATTENDANCE: Ryan Ball, Callan Associates
Jessie Gotsdiner, Women Employed
Eric Hiatt, University of Illinois
Mark Szymanoski, DeVry University
Brienne Weymouth, Callan Associates

Item 1. Announcements

Chair Huber brought the June 14, 2018 meeting to order stating that this was a joint meeting of the Commission and the Investment Committee. He asked that a roll call be taken, which established a quorum was present for both the Commission and the Investment Committee. It is noted that Mr. Kent Custer, Chief Investment Officer, is participating in the meeting via telephone.

Chair Huber welcomed Ms. Emma Johns, who was appointed by the Governor on June 11 as a Student Commissioner. Ms. Johns shared that she is a junior at Southern Illinois University at Carbondale.

Item 2. Approval of the Minutes of the April 5, 2018 Meeting

Mr. del Valle **MOVED THAT** the minutes of the April 5, 2018 meeting of the Commission be approved. Ms. Savage seconded the motion, which was approved unanimously.

Item 3. Executive Director's Report

Mr. Zarnikow announced that Ms. Calcara, who has been working part-time for ISAC on contract as a result of her recent retirement, has decided that she does not want to continue to provide consulting services for an extended period of time. Therefore, Ms. Wandall will take over the administrative duties and communications with Commissioners related to the Commission meetings. Ms. Calcara will be supporting this transition.

Continuing, Mr. Zarnikow announced that Mr. Custer has submitted his resignation and will be relocating to Dallas, Texas. He stated this is a loss for ISAC as he has been instrumental in the management of the College Illinois![®] Trust Fund. Mr. Zarnikow and Chair Huber wished him well in his future endeavors.

Chair Huber stated they would move ahead on the agenda to the College Illinois! Prepaid Tuition Program Investments since Mr. Custer was joining the meeting via telephone.

Item 8. College Illinois![®] Prepaid Tuition Program Investments

Item 8A. Approval of the Minutes of the March 7, 2018 Meeting of the Investment Committee

Chair Huber asked for a motion by a member of the Investment Committee to approve the minutes of the March 7, 2018 meeting. Mr. Donovan **SO MOVED** and Ms. Brar seconded the motion, which was approved unanimously by the Investment Committee.

Item 8B. Investment Update

Mr. Custer provided a brief overview of the Investment Update provided in the agenda book.

Item 8C. Approval of Changes to the Watch List

Mr. Custer reviewed the memorandum regarding the Watch List provided in the agenda book. The Ativo fund modest underperformance since inception is slightly disappointing, but within the range of expectations, and recent improvement is encouraging.

Moving on to Pinnacle, who is on the Watch List, Mr. Custer and Mr. Rojas reviewed their history of catching commodity rallies while avoiding downturns. Investment staff continues to value the diversification benefit Pinnacle provides to the Fund and recent recovery is encouraging. Therefore, staff is recommending to remove Pinnacle Natural Resources from the Watch List.

Chair Huber asked for a motion from a member of the Investment Committee to approve the removal of Pinnacle Natural Resources from the Watch List.

Ms. Brar **SO MOVED**, Mr. Huber seconded the motion, which was approved unanimously.

Item 8D. Compliance Review

Mr. Rojas provided a brief overview of the Compliance Review memorandum provided in the agenda book.

Item 8E. Asset Allocation Study

Mr. Custer noted that the Investment Policy states the asset allocation shall be reviewed annually for reasonableness and a formal asset allocation study will be conducted at least every three years. The asset allocation study performed each year is one of the most important endeavors the investment staff undertakes with the support of our consultant Callan Associates.

The Prepaid Tuition Program Investment Consultant, Callan Associates, provided a high level overview of the Asset Allocation and Liability Study presented to the Commission.

Mr. Custer reviewed the proposed interim and long-term asset allocation changes, including the revised Absolute Return structure, as detailed on page 8E-1 of the agenda book. Mr. Custer also reviewed the risk and return for relevant asset allocation profiles provided on page 8E-2 of the agenda book.

Chair Huber asked for a motion from a member of the Investment Committee to recommend the proposed interim and long-term asset allocation for approval by the Commission. Mr. Donovan **SO MOVED**, Ms. Brar seconded the motion, which was approved unanimously by the Investment Committee.

Chair Huber asked for a motion from a member of the Investment Committee to recommend the proposed structure for the Absolute Return asset class with a 50% target each to Pinnacle Natural Resources and Neuberger Berman for approval by the Commission. Ms. Brar **SO MOVED**, Mr. Donovan seconded the motion, which was approved unanimously by the Investment Committee.

Continuing, Chair Huber asked for a motion for the full Commission to approve the proposed interim and long-term asset allocation.

Dr. Twomey **SO MOVED**, Mr. Donovan seconded the motion, which was approved unanimously.

Chair Huber asked for a motion for the full Commission to approve the proposed structure for the Absolute Return asset class with a 50% target each to Pinnacle Natural Resources and Neuberger Berman. Mr. Donovan **SO MOVED**, Ms. Quezada seconded the motion, which was approved unanimously.

Item 8F. Investment Policy Review and Adoption

Mr. Custer reviewed the proposed changes to the Investment Policy as outlined on page 8F of the agenda book. A red-lined version of the Investment Policy reflecting the proposed revisions was provided in the agenda book. Chair Huber asked for a motion by a member of the Investment Committee to recommend the proposed revisions to the Investment Policy for approval by the Commission. Mr. Donovan **SO MOVED**, Ms. Brar seconded the motion, which was approved unanimously by the Investment Committee.

Chair Huber asked for a motion for the full Commission to adopt the Investment Policy as submitted in the agenda book. Ms. Quezada **SO MOVED**, Mr. Donovan seconded the motion, which was approved unanimously.

Item 8G. College Illinois! Prepaid Tuition Program Update

Mr. Zarnikow reminded the Commission of the unfunded liability as of June 30, 2017 and indicated the actuarial estimate will be updated in the fall. He stated we believe it is in the best interest of the program to continue selling contracts and ultimately be self-sustaining. However, continuing to sell contracts in the current situation is counterproductive without legislative action to address the unfunded liability and strengthen the program going forward. He added that staff continues to be in communication with the Governor's office and the legislative staff regarding challenges facing the program and need of honoring current contract holders.

Responding to Mr. Donovan's inquiry regarding state support needed to address the unfunded liability if program remains closed for enrollment, Mr. Zarnikow stated that they have provided the Governor's office and staff of the General Assembly with an estimate of the annual appropriation that is needed to address the unfunded liability in order to honor contract holders in the program. It was noted that this annual estimate could change in the future depending on the results of future annual actuarial updates.

Item 4. Adoption of Illinois Common Career Pathways Definition and Guidance

Mr. Zarnikow stated that this item recommends the Commission adopt the Illinois Common Career Pathways Definition and Guidance, which is aligned with the Illinois Every Student Succeeds Act plan's College and Career Readiness Indicator. The definition of this type enhances and supports inter-agency alignment to advance the provisions of the Postsecondary and Workforce Readiness Act and is consistent with requirements of the Workforce Innovation and Opportunity Act law.

He noted adoption of this definition will create consistency across the education and workforce systems in the state, including ISAC's College Access and Outreach staff's delivering of programs and services in support of the Postsecondary and Career Expectations (PaCE) framework adopted by the Commission last year.

Dr. Twomey **SO MOVED** to approve the adoption by ISAC, as a member of the Workforce Readiness through Apprenticeships and Pathways Steering Committee of the Governor's Cabinet on Children and Youth, of the Illinois Common Career Pathways Definition and Guidance.

Ms. Quezada seconded the motion, which was approved unanimously.

Item 5. State Legislative Update

Ms. Gricevich provided an update on the agency's appropriations for Fiscal Year 2019 as a result of the 2018 legislative session.

Continuing, Ms. Gricevich discussed the legislative report provided in the agenda book which highlights ISAC's portion of the budget, changes for existing programs as well as new programs added in this legislative session. She also discussed other legislative actions that impact ISAC.

Item 6. Approval of Fiscal Year 2019 Monetary Award Program (MAP) Recompute Formula

Ms. Kleemann reminded the Commission a formula was approved at the November meeting in order for schools to begin the MAP award processing. She stated this agenda item is brought to the Commission each year after the state appropriation for MAP is determined as part of the budget at the end of the legislative session in the event the approved formula must be recomputed based on the final appropriation.

Ms. Kleemann stated MAP received level funding and therefore no changes need to be made to the formula at this time.

Mr. Donovan **MOVED THAT** the Commission approve to continue using the FY2019 MAP eligibility formula approved last November. Although the scenario is unlikely, the Commission approve the reduction of second- and third-term claims if a review following the first-term claim deadline deems it necessary to keep claims within the appropriation.

Ms. Savage seconded the motion, which was approved unanimously.

Item 7. Approval of Fiscal Year 2019 Internal Budgets

Ms. Nandhan provided an overview presentation on the Fiscal Year 2019 budget for the Commission. The presentation highlighted the history of ISAC's revenue and expenses from FY 2005-2019. Ms. Nandhan noted a revised list of contracts have been provided to the Commissioners today which includes contracts added after the production of the agenda book.

Discussion was held on specific line items on the proposed budgets including COLAs, marketing for the College Illinois! Prepaid Tuition Program, collection services, as well as the list of contracts provided with the budget.

Mr. Donovan **SO MOVED** that the Commission approve the Fiscal Year 2019 budgets for ISAC's Student Loan Operating Fund, IDAPP, College Illinois! Prepaid Tuition Program and the Gear Up Grant as printed in the agenda book and the revised contract list.

Ms. Quezada seconded the motion, which was approved unanimously.

Item 9. Audit Committee

Item 9A. Approval of the Fiscal Year 2019 Internal Audit Plan

Ms. Savage indicated the FY2019 Internal Audit Plan was approved by the Audit Committee at its meeting prior to the meeting of the Commission today.

Ms. Savage **SO MOVED** that the Commission approve the following Resolution:

“BE IT RESOLVED that the Commission approve the Fiscal Year 2019 Internal Audit Plan as recommended by the Audit Committee for approval.

Mr. Hibbert seconded the motion, which was approved unanimously.

Item 9B. Audit Committee Update

Ms. Savage provided an overview of the agenda and actions taken by the Audit Committee at their meeting prior to the full Commission meeting today.

Item 10. Public Comments

Chair Huber asked if anyone from the public wished to address the Commission. There were no comments from the public.

Item 11. Closed Session

Chair Huber asked for a motion to go into closed session to discuss personnel issues as allowed by subsection 2(c)(1) of the Open Meetings Act.

Ms. Savage **SO MOVED**, Mr. Donovan seconded the motion, which was approved unanimously by roll call vote.

The Commission went into closed session at 3:40 p.m. and returned to open session at 4:12 p.m.

Item 12A. Approval of Closed Session Items

Chair Huber provided feedback to Mr. Zarnikow as a result of the Commission's closed session to discuss his performance. Overall he indicated the Commission evaluations were excellent and they are very pleased with his performance.

Dr. Twomey **SO MOVED** that the Commission approve a 2.5 percent salary increase for Mr. Zarnikow effective June 1, 2018, which is consistent with ISAC staff increases.

Ms. Savage seconded the motion, which was approved unanimously.

Mr. Zarnikow thanked the Commission and stated he appreciates the feedback and the help he receives from staff for the agency to be successful.

Seeing no further business to come before the Commission, Mr. Huber asked for a motion to adjourn. Mr. Donovan **SO MOVED** and Ms. Savage seconded the motion, which was approved unanimously. The meeting adjourned at 4:30 p.m.

Respectfully submitted,



Debora A. Calcara
Secretary to the Commission